

A Comprehensive Proposal to Fund Memphis and Shelby County Schools

Establish County as the single-source of local school funding

Short of allowing the school systems to generate revenue for funding schools, there seems to be consensus that County government is the logical local funding source for both school systems. The county as the single-source equalizes the tax burden, recognizes that every child in Shelby County has equal value and simplifies the local funding model. The county as the single source can work as an interim or long-term solution, while we wait for the courts to sort out the existing lawsuit between the City of Memphis and Memphis City Schools.

Process: County Commission and City Council adopt an interlocal agreement establishing relationship and funding requirements*

*Court decisions may alter the means by which this can be achieved. Depending on the decision, state legislation may ultimately be required.

Tie school operations funding back to the property tax rate

There is a valid concern that in better economic times schools may receive a windfall from increasing property values, while other programs and services provided by the county suffer. There is an equally valid position that with rising costs our schools need to receive inflationary adjustments to provide a quality education for our children. In addition, there is a legal argument put forward by the county school board that the county commission must set a property tax rate for schools. To address inflationary concerns and avoid additional legal confrontation, the ad hoc committee should recommend that the County Commission tie education funding to the property tax rate.

Process: County Commission adopts resolution stating intent and establishing tax rate

Cap the amount of surplus property tax that could be realized by the school systems in a single year

To address fears about a property tax windfall in years where property values are up, the commission should agree to cap the amount of surplus property tax that could be realized. The term "surplus" refers to amounts generated from property tax collections, but above the required maintenance of effort. The recommended cap would be 1.5% above maintenance of effort. Using current numbers, a 1.5% increase would be an additional \$5 million or a little more than .03 on the

property tax rate. Any revenue generated over and above the 1.5% would be segregated and reserved for other school-related needs or leaner years when the property tax fails to generate adequate revenue. None of these surplus funds could be used for other county services or purposes and would not be held in the general fund. Surplus funds could be requested by the school systems for special projects or purposes as a part of the regular budget process or funds could be used for capital needs to limit the amount of bonded indebtedness incurred in a given fiscal year.

Process: County Commission adopts resolution. SCS and MCS resolutions would be helpful, but may not be legally required.

Establish an Education Trust Fund for any surplus to be managed by the Trustee

To ensure that any surplus education funds are only used for education purposes, those funds will be held in an education trust fund managed by the Trustee. An accounting of those funds will be available online and detail the account balance, interest earned, deposits made and withdrawals, specifically the amount to each school system and for what purpose. Interest accrued would also revert to the school systems.

Process: County Commission adopts resolution establishing fund.

Separate capital funding from operations proposal and establish working group to make a recommendation at a later time

A primary point of disagreement among committee members is how to deal with capital costs. No consensus has emerged and because of the focus on operations specific proposals and the need for dedicated revenue streams have not been adequately discussed. The recommendation is to make capital funding a separate issue and establish a smaller working group, either formally or informally to develop a specific proposal. The working group should have a specific deadline, but needs more time than is left in this committee process to delve into the complexities of capital funding. In the interim, the county commission will continue to provide the funding for capital projects either through pay-as-you-go funds or via bond issues and divide those funds according to the ADA split.

Process: Vote of Ad Hoc Committee on Education Funding and subsequent appointment of working group members

Support single-source district proposal minus capital and including referendum to enact

The two primary concerns expressed about the single-source funding district proposed by SCS and MCS were granting taxing authority to other entities and how capital would be addressed, both in

terms of issuing debt and in terms of paying off the debt in the event the single source district is resolved. However, many suggested that if approved by the voters in a referendum that would be sufficient to allay their concerns about taxing authority being given to the school boards. Therefore, the recommendation is for the committee to support the proposal of the school systems for a single-source district excluding capital and including the requirement for a referendum to enact. Specifically, the committee would request the support of the Shelby County delegation and that upon passage by the General Assembly it would be placed on the ballot in May of 2010. By using the May election we avoid some of the election-year politics associated with the August general and draw more attention to the issue. Additionally, if passed it is possible to implement in the 2010-2011 fiscal year, rather than in 2011-2012 if it does not go on the ballot in August. At the same time, we avoid spending nearly \$2 million for a county-wide election in 2009 with nothing else on the ballot.

Process: Vote by Ad Hoc Committee on Education Funding, school systems amend proposal and submit to legislature for approval with favorable recommendation from Ad Hoc.

Agree that both SCS and MCS will submit budgets to county mayor and then commission for approval

If the county is going to be the single source funding entity, then it is reasonable that both school systems be required to submit to the same budget process. The recommendation is that both systems submit their budgets to the mayor's administration and ultimately the commission. This in no way gives either the mayor or commission line item veto. It does get both systems involved in the budget process early and moves the commission toward making a funding commitment to education ahead of other budget priorities. If the commission fails to approve a budget of either system by July 1, the county and the school system agree to binding arbitration funded at the county's expense and that must be completed by September 30 of the same year.

Process: Both systems could agree via interlocal agreement to voluntarily submit to the process for a specified period of time. The alternative would be to seek legislative approval for a change in the statute requiring that when a county becomes the single source of local funding and more than one school system exists that all schools systems are required to submit their budgets for approval by the county legislative body.

Establish a working group and hire a consultant to develop a local formula for distribution of education funds that is based on the needs of children

The most significant area of consensus is in the issue of equitable funding, which has often been defined as beginning with a base amount for every child and adjusting upward based on the special needs of children. Utilizing such a formula locally to distribute education funds will be complex and must be "airtight" to receive legislative approval in Nashville. Therefore, it is recommended that an RFP be issued for a consultant to assist in the development of a local

distribution model based on the special needs of our children. A firm deadline needs to be established for the RFP, selection of a consultant and completion of a product. The working group should include representatives from the school systems and the county at a minimum.

Process: Commission and School Board adopt resolution agreeing to process and establishing how working group is appointed and who will be responsible for RFP.

Work with funding formula consultant to develop alternative approach to BEP formula that disadvantages urban school systems

All four legislative bodies have called on the legislature to alter the BEP formula to account for the higher cost of education in an urban setting and to recognize the unique challenges of larger systems. In a recent meeting with Senator Jamie Woodson, chair of the Senate Education Committee, she asked what would be our specific solution or how we would alter the formula in a way that is fair to rural systems and is legally and politically defensible. She also indicated that while not perfect the BEP formula was among the fairest she had seen in comparison to other states. As a part of the RFP for a consultant to develop a local distribution model, we should also request that the consultant develop a revision to the BEP formula that would address the concerns of large systems. The cost for the consultant's work would be divided among the public bodies participating in the working group and if adopted by the county and both school systems would be submitted to the legislature as a part of our legislative agenda.

Process: Select consultant as described above. County Commission and School Board endorse by resolution the changes to the BEP formula. Legislature must review and adopt changes.

MCS & SCS set deadline for agreement on a long-range plan to establish school boundaries and annexation transition

One of the merits to the single-source district proposal by the school systems is that it required that the systems agree to a long-range plan for boundaries and transition of schools and students in the county to the city as a result of annexations. Whether or not a single-source district becomes a reality, giving assurances and stability to parents, students, faculty and staff is important. It is recommended that MCS and SCS publicly establish a timeline for development and adoption of such a plan.

Process: MCS & SCS indicate timeline in writing via some type of public notice. Both systems agree to plan via interlocal agreement.